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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking into the Review
of the California High Cost Fund B Program.

R.06-06-028

**OPENING COMMENTS OF
SUREWEST TELEPHONE (U 1015 C)
ON ASSIGNED COMMISSIONER'S RULING ADDRESSING PHASE II ISSUES**

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November 9, 2007

Pursuant to Assigned Commissioner's Ruling ("ACR") dated October 5, 2007, SureWest Telephone ("SureWest") provides the following consolidated opening comments on the Phase II issues pertaining to review of the California High Cost Fund-B ("CHCF-B"). The ACR originally divided issues into two separate groups and established separate comment cycles for each group. By administrative law judge ruling issued on October 10, 2007, the separate comment cycles were consolidated, with opening comments due on November 9, 2007 and reply comments due on November 19, 2007. These consolidated comments respond to all issues raised in the ACR.

On the "Section 2" issues raised in the ACR, i.e., reverse auction design and cost proxy model update, SureWest is not directly impacted, at least initially, and therefore does not provide detailed comments at this stage. Pursuant to D.07-09-020, SureWest's draw from the CHCF-B based on support in high-cost census block groups will be transitioned to zero as of July 1, 2009. Accordingly, SureWest does not anticipate that the reverse auction mechanism will be used in SureWest's service area. Furthermore, D.07-09-020 contemplates that the cost model update will be performed initially for AT&T California ("AT&T") and Verizon California, Inc. ("Verizon"). *See* D.07-09-020 (September 6, 2007), mimeo, p. 89 ("We shall separately consider the process for updating of cost proxies for SureWest and Frontier to follow after costs are updated for AT&T and Verizon."). SureWest will monitor proceedings related to updating the cost model for the AT&T and Verizon service areas and will participate in workshops as needed, but given that the focus of the cost model update will not be on SureWest's service area, SureWest does not comment at this time on issues related to the cost model.

SureWest does have direct interest in the resolution of the other Phase II issues in Section 3 of the ACR. The following provides SureWest's input on those issues.

Section 3.1 – Transitional Rate Caps.

SureWest supports the principle identified in D.07-09-020 that the potential for rate shock exists if basic rates are permitted to rise immediately to the \$36 benchmark. *See* D.07-09-020 (September 6, 2007), mimeo, p. 77. SureWest, therefore, supports the adoption of step increases to the rate cap as a means to alleviate the potential for rate shock. SureWest proposes that the step increases on a yearly basis should add between \$1 and \$2 to the monthly rate for basic service. Increases up to \$2 per step would represent a percentage increase for basic service rates in the range of 10% to 20% for the URF ILECs. Accordingly, such yearly step increases should not result in rate shock to basic service subscribers.

After a period of three to five years, the Commission could then evaluate whether on-going step increases are necessary to avoid rate shock or whether to grant full pricing flexibility on basic service.

Section 3.2 – Certification Process to Qualify for B-Fund Support.

In this section, the ACR asks what process should be implemented for a COLR to certify that its services and rates in high cost areas are reasonably comparable to those in urban areas. The short answer is that no new process is required.

In D.07-09-020, the Commission determined that \$36 per month for basic service is a reasonably comparable rate to those charged in urban areas. For a COLR to receive support from the CHCF-B, it may not charge more than \$36 per month for basic service. *See* D.07-09-020 (September 6, 2007), mimeo, p. 81 and Ordering Paragraph 9. Therefore, carriers need not annually demonstrate rate comparability. Instead, the Commission should monitor market trends in urban areas and satisfy itself that the \$36 benchmark continues to reflect a reasonably comparable rate to those charged in urban areas. If the Commission were to determine that \$36

is no longer a reasonably comparable rate, then it should initiate a proceeding to establish a new benchmark.

With respect to the service offering itself, the elements of basic serviced identified in D.96-10-066 should continue to apply. The COLR certification process identified in D.96-10-066 remains adequate and no new process is necessary. Consequently, there is no need for the Commission to establish a new process in which a COLR must regularly demonstrate that its services and rates in high cost areas are reasonably comparable to those in urban areas.

Section 3.3 – Broadening the Base for Eligibility to Receive B-Fund Support.

SureWest does not have any comments to offer at this time and will wait to review opening comments to determine whether further input is necessary.

However, an issue related to "Broadening the Base" should receive heightened attention from the Commission. Specifically, the Commission must reconsider the manner in which it funds the CHCF-B. The funding mechanism issue is being considered more generically in the Public Policy Fund rulemaking (R.06-05-028). Either prior to adoption of the administrative changes contemplated in this proceeding or, at a minimum, coincident with such changes, the Commission should adopt an order in the Public Policy Fund rulemaking that revamps the manner in which the Commission funds the CHCF-B and other public policy funds.

Just as it was time to revamp the manner in which CHCF-B support is distributed, it is equally pressing that the Commission revamp the manner in which CHCF-B support is collected.

Section 3.4 – Standards/Procedures for Future Period Review of the B-Fund Program.

SureWest believes that the Commission should retain a flexible approach to reviewing the CHCF-B, with reviews occurring once every three to five years. Retaining such flexibility

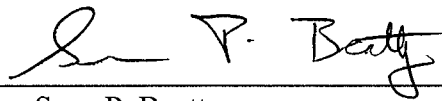
will ensure that needless proceedings do not occur while giving the Commission the opportunity to respond to changing circumstances.

Section 3.5 – Streamlined Administration of B-Fund Receipts and Disbursements.

SureWest does not have any comments to offer at this time and will wait to review opening comments to determine whether further input is necessary.

Dated this 9th day of November, 2007, at San Francisco, California.

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CERTIFICATE OF SERVICE

I, Noel Gielegthem, declare:

I am a resident of the State of California, over the age of eighteen years, and not a party to the within action. My business address is COOPER, WHITE & COOPER LLP, 201 California Street, 17th Floor, San Francisco, CA 94111.

On November 9, 2007, I served the OPENING COMMENTS OF SUREWEST TELEPHONE (U 1015 C) ON ASSIGNED COMMISSIONER'S RULING ADDRESSING PHASE II ISSUES by sending via e-mail a searchable Adobe Acrobat PDF copy of this document to the parties on the attached service list, all of whom provided e-mail addresses.

Hard copies were also mailed to ALJ Pulsifer and Assigned Commissioner Chong's advisor Lynn Carew.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on November 9, 2007, at San Francisco, California.


Noel Gielegthem

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